



Exposure rates of the Dorval Asset Management Range – 18th September 2020

Dear Clients and Partners,

Despite the sharp upsurge in Covid-19 cases in Europe along with severe volatility on the Nasdaq, the world economic recovery is supporting sound showings on the equity markets. In the current environment and after two challenging years, portfolio diversification strategies finally seem to be starting to pay off.

Covid-19 cases continue to soar in Europe, but investors are less and less concerned about the situation, which we feel is rational. Results of phase III vaccine trials are set to be published by the end of the year, the virus is now becoming much less active in the United States and Asia, and economic disruption from the pandemic is dwindling significantly. Additionally, forecasting institutes – such as the OECD – are upgrading their growth projections: China should even post positive growth this year despite the coronavirus crisis, pushing up the yuan (cf. chart 1) and providing good news for the world economy.

Despite China-US tension, the recovery in China is pushing up the Yuan

Malgré les tensions sinoaméricaines,
la reprise chinoise fait remonter le yuan



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- Yuan/dollar (inverted scale)

However, stimulus policies will need to continue if the world economy is to keep on catching up at a reasonable pace, and this is one of the key challenges of the moment in the United States. The Trump administration got the ball rolling again over the past few days, putting forward a \$1.5 trillion program, which is not so far from the \$2.2 trillion the Democrats are seeking. Treasury Secretary Steven Mnuchin is spearheading the offensive against traditional Republicans, stating that now is not the time to worry about shrinking the deficit.

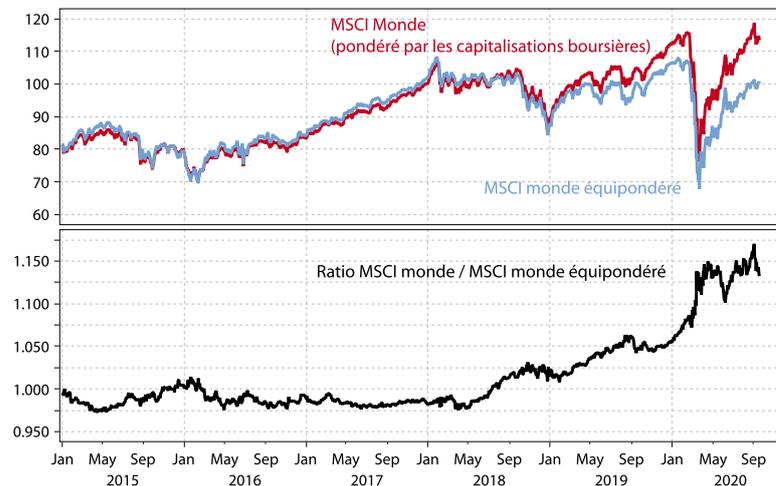


The deal is not done and dusted yet, but an agreement by the end of the month would help shore up confidence in the recovery, which would be very welcome news after somewhat disappointing retail sales figures in August compared to expectations (+0.6% vs. +1% expected, and downward revisions for July). We also note that the Fed's highly accommodative policy is having a substantial impact on real estate and residential construction, as revealed by record figures on the NAHB housing market index, putting in an all-time high of 83 in September.

Meanwhile on the financial markets, stocks on the Nasdaq have become the chief source of volatility. The summer's bubble on this market – driven by the enthusiasm of several retail investors in the United States and elsewhere – sowed the seeds of doubt and it is impossible to say whether these misgivings will trigger a further sell-off or whether a fresh round of buying will keep the euphoria going. Investors are still obviously very keen on these new economy heavyweights, as their growth remains well above the rest of the market. However the predictable end to the coronavirus epidemic makes them slightly less attractive in relative terms. After almost three years when stock-market performances focused clearly on around ten stocks (GAFAM, Tesla, Netflix, and Nvidia now account for 15% of the MSCI World), the MSCI World recently lost some ground to its equally weighted equivalent (cf. chart 2). Confirmation of the world economic recovery and the emergence of a vaccine could bolster this trend.

Stock-market performances very focused since 2018, but things may be changing

Des performances boursières très concentrées depuis 2018,
mais le vent est peut-être en train de tourner



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- MSCI World (weighted by market capitalizations)
- Equally weighted MSCI World
- Ratio MSCI World / equally weighted MSCI World





We have been building our international portfolios on this scenario, with a continued highly diversified management process, but a focus on sectors that are most exposed to the world economic cycle. In Europe, where the GAFAM issue is not relevant, we can also witness a return to diversification with an outperformance for small-caps vs. large-caps since the start of July (cf. chart 3). This trend could continue on the back of the economic recovery currently under way.

Small-caps in Europe pick up again

Les petites valeurs européennes reprennent des couleurs



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Our exposure rates are as follows:

- **Dorval Convictions:** Our exposure rate is 76%.

DORVAL ASSET MANAGEMENT

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